Part II
Costs of Production
Major Field Crops, Livestock, and Dairy

Although Input Expenses Were Generally Rising in 1996, Strong Market Prices for Most Commodities Led to Higher Net Returns

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Acreage and Prices Generally Up for 1996 Crops

Acres planted to major U.S. crops in 1996 were up an average 5.1 percent from 1995 and the highest in at least the past 10 years. Harvested acreage also rose (4.2 percent) and was also the highest in 10 years. Farmers planted 11.6 percent more corn, 9.4 percent more wheat, and 2.6 percent more soybeans. At the same time, acres planted to cotton, rice, sorghum, and sugar beets fell.

Despite production increases for many crops, prices were generally high in 1996. The overall prices received index for crops was up 12.5 percent for the year.

Input Prices Also Up

The 1996 prices paid index for general inputs was up an average 5.5 percent. Of course, there was wide variation among individual inputs. Fertilizer prices rose only 3 percent, as did chemical prices. Fuel prices, however, jumped nearly 12 percent over the relatively steady prices of the previous 4 years.

How these input prices affected individual crops and livestock commodities depended on each enterprise's input mix. Feed prices were up an average 25 percent, which, with lackluster livestock prices, meant lower net returns to livestock producers. The same higher feed prices meant higher net returns to feed grain producers.

Government Payments

For corn, barley, grain sorghum, rice, and cotton, ERS has been publishing costs and returns both including and excluding the costs of participation in government programs, along with the program payments received. A primary reason for including government program costs and returns in the crop production accounts has been their impact on producer planting decisions. Under Federal legislation prior to 1996, producers had to plant program crops in accordance with certain program provisions in order to qualify for payments. This meant that the planted acreage of a program crop was not only determined by expected market returns to the crop, but also by returns associated with program participation. Consequently, some resources were committed to production of a program commodity due to returns associated with program participation, not expected market returns.

Provisions of the 1996 Farm Act eliminated the requirement that program crops be planted in order to qualify for program payments. Target prices and deficiency payments were replaced with fixed annual payments, while basic, Findley, and announced loan rates were replaced with marketing assistance loans. There are no longer mandatory acreage reduction or paid land diversion provisions and, therefore, no direct cost of program participation. The new legislation means that producers are free to make planting decisions in response to market forces, and resources are not held in the production of a program crop simply because of program provisions.

Because government payments are not directly associated with the production of any specific commodity, ERS did not develop cost and return data estimates that included government program effects for program crops for the 1996 calendar year.

New Survey Data

New survey data for grain sorghum, peanuts, and burley tobacco are underlying the 1995 and 1996 estimates for those crops. In addition to the new data, the accounting framework and methodology for burley tobacco has been changed to reflect that of other field crops. Next year, two final commodities, flue-cured tobacco and cow-calf production, will be brought into methodological consistency with the other commodities for which cost-of-production estimates are made. New analyses are also available electronically for oats, sorghum, and peanuts. These short reports (titled *Farm Business Economic Indicators Updates*) provide preliminary analyses of the production systems used in growing these crops. The reports can be found on the ERS website at *http://www.econ.ag.gov/briefing/fbe* in the publications section.